

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Eau Claire	County Berrien
Fiscal Year End February 29, 2008	Opinion Date April 24, 2008	Date Audit Report Submitted to State May 1, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

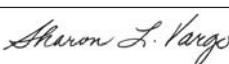
YES
NO

Check each applicable box below. (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☐ ☒ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 269-982-8000		
Street Address 511 Renaissance Drive, Suite 120		City St. Joseph	State MI	Zip 49085
Authorizing CPA Signature 		Printed Name Sharon L. Vargo		License Number 1101010413

Village of Eau Claire, Michigan

**Financial Report
with Supplemental Information
February 29, 2008**

Village of Eau Claire, Michigan

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Independent Auditor's Report

To the Village Council
Village of Eau Claire, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Eau Claire, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Eau Claire, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Eau Claire, Michigan as of February 29, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

April 24, 2008

Village of Eau Claire, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Eau Claire, Michigan's (the "Village") financial performance provides an overview of the Village's financial activities for the fiscal year ended February 29, 2008. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended February 29, 2008:

- State-shared revenue, the Village's second largest revenue source, decreased slightly this year compared to fiscal year 2007.
- The Village expended \$36,000 on street improvements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Village of Eau Claire, Michigan

Management's Discussion and Analysis (Continued)

The Village as a Whole

The following table shows, in a comparative, condensed format, the net assets as of February 29, 2008 and February 28, 2007 and 2006:

	Governmental Activities			Business-type Activities			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Assets									
Current assets	\$ 461,762	\$ 400,681	\$ 410,373	\$ 150,677	\$ 215,818	\$ 189,548	\$ 612,439	\$ 616,499	\$ 599,921
Noncurrent assets	240,614	224,277	197,954	498,717	459,300	375,605	739,331	683,577	573,559
Total assets	702,376	624,958	608,327	649,394	675,118	565,153	1,351,770	1,300,076	1,173,480
Liabilities									
Current liabilities	11,451	14,561	13,798	1,176	79,796	1,394	12,627	94,357	15,192
Long-term liabilities	1,627	1,592	3,030	-	-	-	1,627	1,592	3,030
Total liabilities	13,078	16,153	16,828	1,176	79,796	1,394	14,254	95,949	18,222
Net Assets									
Invested in capital assets - Net									
of related debt	240,614	224,277	197,954	498,717	459,300	375,605	739,331	683,577	573,559
Restricted	110,915	76,593	124,225	-	-	-	110,915	76,593	124,225
Unrestricted	337,769	307,935	269,320	149,501	136,022	188,154	487,270	443,957	457,474
Total net assets	<u>\$ 689,298</u>	<u>\$ 608,805</u>	<u>\$ 591,499</u>	<u>\$ 648,218</u>	<u>\$ 595,322</u>	<u>\$ 563,759</u>	<u>\$ 1,337,516</u>	<u>\$ 1,204,127</u>	<u>\$ 1,155,258</u>

The Village's combined net assets increased 11 percent from a year ago - increasing from \$1,204,127 to \$1,337,516. As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net assets increased 13 percent, from \$608,805 to \$689,298, while business-type activities increased 9 percent, from \$595,322 to \$648,218.

Village of Eau Claire, Michigan

Management's Discussion and Analysis (Continued)

The following table shows, in a comparative, condensed format, the changes in net assets during the years ended February 29, 2008 and February 28, 2007 and 2006:

	Governmental Activities			Business-type Activities			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Revenue									
Program revenue:									
Charges for services	\$ 14,176	\$ 5,673	\$ 8,743	\$ 169,197	\$ 145,885	\$ 145,964	\$ 183,373	\$ 151,558	\$ 154,707
Operating grants and contributions	52,851	53,145	54,087	-	-	-	52,851	53,145	54,087
General revenue:									
Property taxes	176,372	169,978	163,449	-	-	-	176,372	169,978	163,449
State-shared revenue	75,974	77,314	77,930	-	-	-	75,974	77,314	77,930
Unrestricted interest income	13,796	14,860	12,862	5,358	6,187	7,351	19,154	21,047	20,213
Miscellaneous	12,151	13,286	12,351	-	-	-	12,151	13,286	12,351
Total revenue	345,320	334,256	329,422	174,555	152,072	153,315	519,875	486,328	482,737
Program Expenses									
General government	110,413	101,105	121,178	-	-	-	110,413	101,105	121,178
Public safety	77,212	85,895	97,294	-	-	-	77,212	85,895	97,294
Public works	52,549	104,928	69,444	-	-	-	52,549	104,928	69,444
Recreation and culture	24,653	25,022	27,873	-	-	-	24,653	25,022	27,873
Water, sewer, and sanitation	-	-	-	121,659	120,509	136,650	121,659	120,509	136,650
Total program expenses	264,827	316,950	315,789	121,659	120,509	136,650	386,486	437,459	452,439
Change in Net Assets	\$ 80,493	\$ 17,306	\$ 13,633	\$ 52,896	\$ 31,563	\$ 16,665	\$ 133,389	\$ 48,869	\$ 30,298

Village of Eau Claire, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

- A property tax levy for 2007 was approved by the Village Council during the May 2007 council meeting at a combined general and streets millage rate of 15.3303.
- With approximate revenue of \$175,000 (assuming 100 percent collection), this would be an increase of approximately 3 percent over the same revenue source from 2007.
- The Village paid Consumers Asphalt approximately \$36,000 for road improvements during 2008.

Business-type Activities

During the 2007 fiscal year, the Village Council approved the new well house renovations which were constructed by Fleis & Vandenbrink. The project was completed during the year at a cost of \$61,000.

During the year, the Village Council also approved Wightman and Associates, Inc. to begin assisting the Village with updating the lift stations and lagoons to comply with DEQ standards. The costs associated with this work as of February 29, 2008 were minimal.

General Fund Budgetary Highlights

The General Fund pays for most of the Village's governmental services. The primary services provided include police and fire services, administrative services, public services, and parks and recreation.

As shown in the required supplemental information, the Village budgeted operational expenditures of \$233,420. Actual expenditures ended up less than budget by \$21,228. The significant budget-to-actual differences were a result of the Village estimating the administration, police, and parks and recreation department expenditures higher than required.

Economic Factors and Next Year's Budgets and Rates

The Village's fiscal year 2009 budget anticipates state-shared revenue consistent with fiscal year 2008. Current economic conditions in the state of Michigan have put statutory revenue sharing at risk of being reduced. The Council has adopted a conservative budget that retains current fund balance, but also facilitates community priorities and quality services.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Village of Eau Claire, Michigan

Statement of Net Assets February 29, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 412,558	\$ 121,039	\$ 533,597
Receivables:			
Property taxes receivable	26,197	-	26,197
Receivables from sales to customers on account	-	29,638	29,638
Due from other governmental units	23,007	-	23,007
Capital assets (Note 4)	240,614	498,717	739,331
Total assets	702,376	649,394	1,351,770
Liabilities			
Accounts payable	3,582	1,176	4,758
Accrued liabilities and other	4,269	-	4,269
Noncurrent liabilities (Note 6):			
Due within one year - Compensated absences	3,600	-	3,600
Due in more than one year - Compensated absences	1,627	-	1,627
Total liabilities	13,078	1,176	14,254
Net Assets			
Invested in capital assets - Net of related debt	240,614	498,717	739,331
Restricted for streets and highways	110,915	-	110,915
Unrestricted	337,769	149,501	487,270
Total net assets	<u>\$ 689,298</u>	<u>\$ 648,218</u>	<u>\$ 1,337,516</u>

Village of Eau Claire, Michigan

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 110,413	\$ 3,770	\$ -
Public safety	77,212	10,406	-
Public works	52,549	-	52,851
Recreation and culture	24,653	-	-
Total governmental activities	264,827	14,176	52,851
Business-type activities:			
Water Fund	48,669	80,683	-
Waste Water Fund	45,844	56,494	-
Sanitation Fund	27,146	32,020	-
Total business-type activities	121,659	169,197	-
Total primary government	\$ 386,486	\$ 183,373	\$ 52,851
General revenues:			
Property taxes			
State-shared revenue			
Unrestricted investment income			
General revenue			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended February 29, 2008

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (106,643)	\$ -	\$ (106,643)
(66,806)	-	(66,806)
302	-	302
(24,653)	-	(24,653)
(197,800)	-	(197,800)
-	32,014	32,014
-	10,650	10,650
-	4,874	4,874
-	47,538	47,538
(197,800)	47,538	(150,262)
176,372	-	176,372
75,974	-	75,974
13,796	5,358	19,154
12,151	-	12,151
278,293	5,358	283,651
80,493	52,896	133,389
608,805	595,322	1,204,127
\$ 689,298	\$ 648,218	\$ 1,337,516

Village of Eau Claire, Michigan

Governmental Funds Balance Sheet February 29, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Municipal Streets and Sidewalks Fund	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 268,026	\$ 71,370	\$ -	\$ 24,551	\$ 363,947
Receivables:					
Property taxes receivable	19,456	-	-	6,741	26,197
Due from other governmental units	13,481	6,931	2,595	-	23,007
Due from other funds (Note 5)	1,265	-	-	-	1,265
Total assets	\$ 302,228	\$ 78,301	\$ 2,595	\$ 31,292	\$ 414,416
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 2,107	\$ 8	\$ -	\$ -	\$ 2,115
Due to other funds (Note 5)	-	-	1,265	-	1,265
Accrued liabilities and other	4,269	-	-	-	4,269
Total liabilities	6,376	8	1,265	-	7,649
Fund Balances					
Unreserved, reported in:					
General Fund:					
Designated - Park improvements	93,235	-	-	-	93,235
Undesignated	202,617	-	-	-	202,617
Special Revenue Funds -					
Undesignated	-	78,293	1,330	31,292	110,915
Total fund balances	295,852	78,293	1,330	31,292	406,767
Total liabilities and fund balances	\$ 302,228	\$ 78,301	\$ 2,595	\$ 31,292	\$ 414,416

Village of Eau Claire, Michigan

Governmental Funds **Reconciliation of the Balance Sheet to the Statement of Net Assets** **February 29, 2008**

Fund Balance Reported in Governmental Funds	\$ 406,767
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	191,141
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(5,227)
Internal Service Funds are included as part of governmental activities	<u>96,617</u>
Net Assets of Governmental Activities	<u>\$ 689,298</u>

Village of Eau Claire, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended February 29, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Municipal Streets and Sidewalks Fund	Total
Revenue					
Property taxes	\$ 131,369	\$ -	\$ -	\$ 45,003	\$ 176,372
Licenses and permits	11,251	-	-	-	11,251
State-shared revenue and grants	75,974	38,509	14,342	-	128,825
Other charges for services	1,015	-	-	-	1,015
Investment income	9,849	2,162	-	577	12,588
Rental income	1,910	-	-	-	1,910
Other revenue	12,151	-	-	-	12,151
Total revenue	243,519	40,671	14,342	45,580	344,112
Expenditures					
General government	109,884	-	-	-	109,884
Public safety	72,501	-	-	-	72,501
Public works	8,920	23,001	46,470	26,800	105,191
Recreation and culture	20,887	-	-	-	20,887
Total expenditures	212,192	23,001	46,470	26,800	308,463
Excess of Revenue Over (Under) Expenditures	31,327	17,670	(32,128)	18,780	35,649
Other Financing Sources (Uses)					
Interfund transfers in (Note 5)	-	-	30,000	-	30,000
Interfund transfers out (Note 5)	(30,000)	-	-	-	(30,000)
Total other financing sources (uses)	(30,000)	-	30,000	-	-
Net Change in Fund Balances	1,327	17,670	(2,128)	18,780	35,649
Fund Balances - Beginning of year	294,525	60,623	3,458	12,512	371,118
Fund Balances - End of year	\$ 295,852	\$ 78,293	\$ 1,330	\$ 31,292	\$ 406,767

Village of Eau Claire, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended February 29, 2008

Net Change in Fund Balances - Total Governmental Funds	\$	35,649
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; however,
in the statement of activities, these costs are allocated over their
estimated useful lives as depreciation:

Capital outlay		37,265
Depreciation expense		(11,220)

Changes in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements until they come due for payment		(135)
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Internal Service Funds are included as part of governmental activities		18,934
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Change in Net Assets of Governmental Activities	\$	<u>80,493</u>
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Village of Eau Claire, Michigan

Proprietary Funds Statement of Net Assets February 29, 2008

	Waste Water Fund	Water Fund	Sanitation Fund	Total	Internal Service Fund
Assets					
Current assets:					
Cash and cash equivalents (Note 3)	\$ 81,097	\$ 35,082	\$ 4,860	\$ 121,039	\$ 48,611
Receivables	9,695	14,209	5,734	29,638	-
Total current assets	90,792	49,291	10,594	150,677	48,611
Noncurrent assets - Capital assets (Note 4)	197,975	300,742	-	498,717	49,473
Total assets	288,767	350,033	10,594	649,394	98,084
Liabilities - Current - Accounts payable	1,148	28	-	1,176	1,467
Net Assets					
Invested in capital assets - Net of related debt	197,975	300,742	-	498,717	49,473
Unrestricted	89,644	49,263	10,594	149,501	47,144
Total net assets	\$ 287,619	\$ 350,005	\$ 10,594	\$ 648,218	\$ 96,617

Village of Eau Claire, Michigan

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Assets

Year Ended February 29, 2008

	Waste Water Fund	Water Fund	Sanitation Fund	Total	Internal Service Fund
Operating Revenue					
Sale of water	\$ -	\$ 80,683	\$ -	\$ 80,683	\$ -
Sewage disposal charges	56,494	-	-	56,494	-
Sanitation charges	-	-	32,020	32,020	-
Charges to other funds	-	-	-	-	45,701
Total operating revenue	56,494	80,683	32,020	169,197	45,701
Operating Expenses					
Cost of water	-	41,195	-	41,195	-
Cost of sewage treatment	31,970	-	-	31,970	-
Other operation and maintenance costs	-	-	-	-	18,267
Cost of sanitation services	-	-	27,146	27,146	-
Depreciation	13,874	7,474	-	21,348	9,708
Total operating expenses	45,844	48,669	27,146	121,659	27,975
Operating Income	10,650	32,014	4,874	47,538	17,726
Nonoperating Revenue - Investment income	2,329	2,944	85	5,358	1,208
Change in Net Assets	12,979	34,958	4,959	52,896	18,934
Net Assets - Beginning of year	274,640	315,047	5,635	595,322	77,683
Net Assets - End of year	<u>\$ 287,619</u>	<u>\$ 350,005</u>	<u>\$ 10,594</u>	<u>\$ 648,218</u>	<u>\$ 96,617</u>

Village of Eau Claire, Michigan

Proprietary Funds Statement of Cash Flows Year Ended February 29, 2008

	Waste Water Fund	Water Fund	Sanitation Fund	Total	Proprietary - Internal Service Fund
Cash Flows from Operating Activities					
Receipts from customers	\$ 56,352	\$ 78,666	\$ 31,892	\$ 166,910	\$ 824
Payments to suppliers	(16,155)	(19,429)	(25,190)	(60,774)	(15,451)
Payments to employees	(14,882)	(22,256)	(1,956)	(39,094)	(4,037)
Receipts from interfund services and reimbursements	-	-	-	-	44,877
Net cash provided by operating activities	25,315	36,981	4,746	67,042	26,213
Cash Flows from Capital and Related Financing Activities - Purchase of capital assets	-	(139,828)	-	(139,828)	-
Cash Flows from Investment Activities - Interest received	2,329	2,944	85	5,358	1,208
Net Increase (Decrease) in Cash and Cash Equivalents	27,644	(99,903)	4,831	(67,428)	27,421
Cash and Cash Equivalents - Beginning of year	53,453	134,985	29	188,467	21,190
Cash and Cash Equivalents - End of year	<u>\$ 81,097</u>	<u>\$ 35,082</u>	<u>\$ 4,860</u>	<u>\$ 121,039</u>	<u>\$ 48,611</u>
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating income	\$ 10,650	\$ 32,014	\$ 4,874	\$ 47,538	\$ 17,726
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	13,874	7,474	-	21,348	9,708
Changes in assets and liabilities:					
Receivables	(142)	(2,017)	(128)	(2,287)	-
Accounts payable	933	(490)	-	443	(1,221)
Net cash provided by operating activities	<u>\$ 25,315</u>	<u>\$ 36,981</u>	<u>\$ 4,746</u>	<u>\$ 67,042</u>	<u>\$ 26,213</u>

Noncash Investing, Capital, and Financing Activities - During the year ended February 29, 2008, the Waste Water, Water, Sanitation, and Internal Service Funds did not have any noncash activities.

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the Village of Eau Claire, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Eau Claire, Michigan:

Reporting Entity

The Village of Eau Claire, Michigan is governed by an elected five-member council. In accordance with accounting principles generally accepted in the United States, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. The Village has chosen to show all its funds as major.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note I - Nature of Business and Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, if applicable, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

General Fund - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Streets Fund - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Municipal Streets and Sidewalks Fund - The Municipal Streets and Sidewalks Fund accounts for the resources provided by a tax millage to be used for road and sidewalk construction and repair.

The Village reports the following major proprietary funds:

Waste Water Fund - The Waste Water Fund accounts for the activities of the sewage collection system.

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Sanitation Fund - The Sanitation Fund accounts for the activities of the refuse collection service.

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note I - Nature of Business and Significant Accounting Policies (Continued)

Additionally, the Village reports the following internal service activities:

Internal Service Fund - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the Village on a cost reimbursement basis.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's proprietary functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Waste Water Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 30, at which time penalties and interest are assessed.

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The 2007 taxable valuation of the Village totaled \$11,303,169, on which taxes levied consisted of 11.3851 mills for operating purposes and 3.9452 mills for street repair and maintenance. This resulted in approximately \$130,000 for operating and \$45,000 for street repair and maintenance. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled interest income from the General Fund, Special Revenue Funds, and Enterprise Funds is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Roads, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	25 years
Water and sewer systems	15 to 20 years
Buildings and building improvements	50 years
Vehicles	5 to 10 years
Equipment	3 to 25 years

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note I - Nature of Business and Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Village does not have a policy to pay any amounts when employees separate from service with the Village. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at March 1, 2007		\$	(5,364)
Current year permit revenue			9,391
Related expenses:			
Direct costs	\$	5,814	
Estimated indirect costs		<u>3,411</u>	<u>9,225</u>
Current year surplus			<u>166</u>
Cumulative shortfall at February 29, 2008		\$	<u>(5,198)</u>

Noncompliance with Legal Provisions - As of the end of the fiscal year, the Village had not adopted an ACH policy, as required by the State of Michigan.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated two financial institutions for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Village's deposits and investment policies are in accordance with statutory authority.

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had approximately \$340,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC/NCUA insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance March 1, 2007	Additions	Disposals and Adjustments	Balance February 29, 2008
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 30,140	\$ -	\$ -	\$ 30,140
Capital assets being depreciated:				
Roads and sidewalks	73,298	35,895	-	109,193
Buildings and improvements	87,717	-	-	87,717
Vehicles	80,160	-	-	80,160
Office furnishings and equipment	179,080	1,370	(1,433)	179,017
Subtotal	420,255	37,265	(1,433)	456,087
Accumulated depreciation:				
Roads and sidewalks	2,248	3,650	-	5,898
Buildings and improvements	57,329	1,754	-	59,083
Vehicles	70,236	1,020	-	71,256
Office furnishings and equipment	96,305	14,504	(1,433)	109,376
Subtotal	226,118	20,928	(1,433)	245,613
Net capital assets being depreciated	194,137	16,337	-	210,474
Net capital assets	\$ 224,277	\$ 16,337	\$ -	\$ 240,614

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance March 1, 2007	Additions	Disposals and Adjustments	Balance February 29, 2008
Capital assets not being depreciated - Construction in progress	\$ 144,493	\$ -	\$ (144,493)	\$ -
Capital assets being depreciated:				
Water and sewer distribution systems	988,256	60,765	144,493	1,193,514
Machinery and equipment	62,653	-	-	62,653
Subtotal	1,050,909	60,765	144,493	1,256,167
Accumulated depreciation:				
Water and sewer distribution systems	680,240	21,025	-	701,265
Machinery and equipment	55,862	323	-	56,185
Subtotal	736,102	21,348	-	757,450
Net capital assets being depreciated	314,807	39,417	144,493	498,717
Net capital assets	<u>\$ 459,300</u>	<u>\$ 39,417</u>	<u>\$ -</u>	<u>\$ 498,717</u>

Depreciation expense was charged to programs of the Village as follows:

Governmental activities:

General government	\$ 1,764
Public safety	4,711
Public works	10,687
Recreation and culture	3,766
Total governmental activities	<u>\$ 20,928</u>

Business-type activities:

Water	\$ 7,474
Waste water	13,874
Total business-type activities	<u>\$ 21,348</u>

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Local Streets Fund	\$ 1,265

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Local Streets Fund	\$ 30,000

The transfers from the General Fund to the Local Streets Fund represent the use of tax revenues to maintain local streets in the Village, in accordance with budgetary authorizations.

Note 6 - Noncurrent Liabilities

The Village grants paid time off to employees for sick and vacation absences. Time is earned and accrued based on the employees' service to the Village.

The liability activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 5,092	\$ 135	\$ -	\$ 5,227	\$ 3,600

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note 7 - Sale of Delinquent Property Taxes

The Village annually sells its delinquent real property taxes to the County, which then becomes responsible for collecting the taxes, and taking any uncollected tax parcels through the tax reversion process. The County purchases these taxes at 100 percent of face value, and in return the County is allowed to retain all interest and penalties it collects. The estimated present value of the future delinquent collections to the Village is less than the face value that has been received, because of the time value of money; however, the net present value to the County is greater than this amount, because of the statutory provision that allows the County to retain all penalties and interest. As of February 29, 2008, the Village has accrued approximately \$18,000 for this sale. At the end of the tax reversion process (approximately three years), the County charges the Village back for any uncollected taxes. Historically, this amount has not been significant.

Note 8 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village participates in the Michigan Municipal League risk pool for claims relating to all risks.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan

Plan Description - The Village participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the Village Commission and requires a contribution from the employees of 8.26 percent of gross wages.

Village of Eau Claire, Michigan

Notes to Financial Statements February 29, 2008

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended February 29, 2008, the Village's annual pension cost of \$12,492 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 8.4 percent per year, depending on age, attributable to seniority/merit, and (d) no increase after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis.

	Fiscal Year Ended February 29		
	2006	2007	2008
Annual pension cost (APC)	\$ 14,670	\$ 14,328	\$ 12,492
Percentage of APC contributed	100.0 %	100.0 %	100 %
Net pension obligation	-	-	-

	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 240,555	\$ 244,465	\$ 254,358
Actuarial accrued liability (AAL) (entry age)	\$ 406,580	\$ 422,371	\$ 440,805
Unfunded AAL (UAAL)	\$ 166,025	\$ 177,906	\$ 186,447
Funded ratio	59.2 %	57.9 %	57.7 %
Covered payroll	\$ 95,832	\$ 98,460	\$ 102,118
UAAL as a percentage of covered payroll	173.2 %	180.7 %	182.6 %

Required Supplemental Information

Village of Eau Claire, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended February 29, 2008

	Original Budget	Final Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 120,000	\$ 119,100	\$ 131,369	\$ 12,269
Licenses and permits	3,225	10,357	11,251	894
State-shared revenue and grants	77,500	77,500	75,974	(1,526)
Other charges for services	10	30	1,015	985
Investment income	5,500	8,700	9,849	1,149
Rental income	1,750	1,750	1,910	160
Other revenue	9,600	10,971	12,151	1,180
Total revenue	217,585	228,408	243,519	15,111
Expenditures				
General government:				
Administration	88,425	91,956	84,013	7,943
Building	24,306	26,144	25,871	273
Public safety:				
Police	79,387	74,142	64,849	9,293
Inspections	1,000	7,252	7,652	(400)
Public works - Street lighting	8,700	8,700	8,920	(220)
Recreation and culture	21,781	25,226	20,887	4,339
Total expenditures	223,599	233,420	212,192	21,228
Excess of Revenue Over (Under) Expenditures	(6,014)	(5,012)	31,327	36,339
Other Financing Uses -				
Interfund transfers out	-	(30,000)	(30,000)	-
Net Change in Fund Balance	(6,014)	(35,012)	1,327	36,339
Fund Balance - Beginning of year	294,525	294,525	294,525	-
Fund Balance - End of year	<u>\$ 288,511</u>	<u>\$ 259,513</u>	<u>\$ 295,852</u>	<u>\$ 36,339</u>

Village of Eau Claire, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended February 29, 2008

	Original Budget	Final Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 38,000	\$ 38,000	\$ 38,509	\$ 509
Investment income	-	-	2,162	2,162
Total revenue	38,000	38,000	40,671	2,671
Expenditures - Public works				
Routine maintenance	44,895	16,895	18,839	(1,944)
Winter maintenance	1,915	1,915	940	975
Administration	3,666	3,751	3,222	529
Total expenditures	50,476	22,561	23,001	(440)
Net Change in Fund Balance	(12,476)	15,439	17,670	2,231
Fund Balance - Beginning of year	60,623	60,623	60,623	-
Fund Balance - End of year	<u>\$ 48,147</u>	<u>\$ 76,062</u>	<u>\$ 78,293</u>	<u>\$ 2,231</u>

Village of Eau Claire, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended February 29, 2008

	Original Budget	Final Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 13,000	\$ 13,300	\$ 14,342	\$ 1,042
Investment income	50	50	-	(50)
Total revenue	13,050	13,350	14,342	992
Expenditures - Public works				
Routine maintenance	33,415	37,615	43,034	(5,419)
Winter maintenance	1,000	1,000	310	690
Administration	3,533	3,553	3,126	427
Total expenditures	37,948	42,168	46,470	(4,302)
Excess of Expenditures Over Revenue	(24,898)	(28,818)	(32,128)	(3,310)
Other Financing Sources - Interfund transfers in	40,000	30,000	30,000	-
Net Change in Fund Balance	15,102	1,182	(2,128)	(3,310)
Fund Balance - Beginning of year	3,458	3,458	3,458	-
Fund Balance - End of year	<u>\$ 18,560</u>	<u>\$ 4,640</u>	<u>\$ 1,330</u>	<u>\$ (3,310)</u>

Village of Eau Claire, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Municipal Streets and Sidewalks Fund Year Ended February 29, 2008

	Original Budget	Final Budget	Actual	Variance with Budget
Revenue				
Property taxes	\$ 38,000	\$ 41,220	\$ 45,003	\$ 3,783
Investment income	-	-	577	577
Total revenue	38,000	41,220	45,580	4,360
Expenditures - Public works				
Routine maintenance	15,720	26,858	22,889	3,969
Administration	5,393	4,883	3,911	972
Total expenditures	21,113	31,741	26,800	4,941
Excess of Revenue Over Expenditures	16,887	9,479	18,780	9,301
Other Financing Uses - Interfund transfers out	40,000	-	-	-
Net Change in Fund Balance	56,887	9,479	18,780	9,301
Fund Balance - Beginning of year	12,512	12,512	12,512	-
Fund Balance - End of year	<u>\$ 69,399</u>	<u>\$ 21,991</u>	<u>\$ 31,292</u>	<u>\$ 9,301</u>

Village of Eau Claire, Michigan

Note to Required Supplemental Information Year Ended February 29, 2008

Budgetary Information - Annual budgets are prepared by the department supervisors on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds and adopted by the Village Council. Subsequent amendments, if any, are approved by the Village Council.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the Village Council is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Village incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
Major Streets Fund - Routine maintenance	\$ 16,895	\$ 18,839
Local Streets Fund - Routine maintenance	37,615	43,034

April 24, 2008

To the Village Council
Village of Eau Claire

Dear Council Members:

In planning and performing our audit of the financial statements of the Village of Eau Claire as of and for the year ended February 29, 2008 in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and a deficiency that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Segregation of Duties

Control over cash receipt and disbursement transactions is limited because of insufficient segregation of duties. The same individual accepts cash receipts, records cash receipts, makes bank deposits, receives the bank statements, and prepares the bank reconciliations. This individual is also an approved check signer and has access to the blank check stock. The reconciliations are reviewed by a second individual, adding a level of control.

Interest Income

The interest income earned on the Village's cash balances was not initially allocated to the various funds in the current year by the Village. Rather, the entire amount was recorded within the General Fund. In order to properly account for the interest income earned, we recommend allocating it among the funds on a monthly basis based on the average cash balance of each fund.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

General Ledger

In the general ledger maintained by the Village, the balance sheet is not segregated into the various funds. Generally accepted accounting principles require each fund of the Village to have its own balance sheet. Accounts like cash, accounts receivable, property taxes receivable, accounts payable, and fund balance are not segregated in the general ledger. The lack of segregation makes it difficult for the Village to ensure the individual funds are correctly stated. For example, the prior year audit entries were not posted, which led to an incorrect fund balance for each individual fund for the entire year. This went unnoticed due to the combined general ledger.

Similarly, the Equipment Fund, a legally separate fund of the Village, is shown within the General Fund activity in the general ledger. The operating results of the fund are difficult to determine within the current ledger.

Audit Adjustments

Material adjustments were identified by Plante & Moran, PLLC during the audit and recorded as adjusting entries. These adjustments were made to the Water Fund's capital assets and the General and Municipal Streets and Sidewalk Funds' property tax receivable. During our audit, we noted that current year additions in the Water Fund had been expensed throughout the year rather than recorded as capital asset additions. It was also noted that necessary adjustments to the property tax receivable balances in the General and Municipal Streets and Sidewalk Funds had not been recorded, which left the property tax revenue in these funds understated.

Other Matters

General Ledger Reports

There are reports that cannot be recreated within the general ledger system after a period of time, such as bank reconciliations. It is important that these reports are printed and retained after their completion each month as supporting documentation for account balances.

Customer Utility Payments

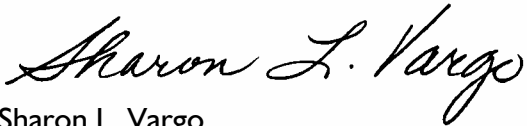
The Village has multiple customers who utilize the ACH method for paying their utility bills each month. However, it was noted during our testing that the Village does not require a formal authorization form signed by the customer in order to begin the automatic withdrawal of utility payments. In order to strengthen the controls surrounding this payment process, we recommend the Village create a standard approval form to be completed by the customers who would like to utilize the ACH method of payment.

We appreciate the courtesy and cooperation extended to us by you during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

This communication is intended solely for the information and use of management, the finance committee, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Sharon L. Vargo". The signature is written in black ink and is positioned above the printed name.

Sharon L. Vargo